

VIRGINIA ENERGY CHOICE

Electricity represents an almost universal service in America. Over 98% of all Americans have access to electricity and everyone, in one way or another, uses electricity. The reliable provision of this power source is critical to the functioning of an ever demanding and increasing electrically dependent economy. The electric industry is the largest industry in the United States and represents over \$200 billion in revenue and over \$600 billion dollars in capital assets. There are almost 250 investor owned utilities, nine federally owned utilities, over 2,000 publicly owned utilities, and almost 1,000 electric cooperatives. This is a massive industry that provides an extremely valuable and necessary service.

Through changes in state law by the Virginia General Assembly in 1999, the Commonwealth initiated the transition toward a competitive energy supply market by 2007. For the first time, Virginians are being given the opportunity to decide who supplies their electricity or natural gas. In the past, one company provided all energy services – generation/supply, transmission, and distribution. In the future, more than one company may compete to supply your electricity or natural gas, thus allowing you to shop for the most attractive offer.

What will remain unchanged is that your local utility company will continue to distribute and deliver electricity or natural gas to homes and businesses. The Virginia State Corporation Commission (SCC) will continue to regulate such distribution, ensuring that the safe, reliable service you have counted upon in the past is there for you in the future. If you obtain electric or natural gas service from a municipality, nothing changes unless your local government decides to change.

The General Assembly specifically charged the SCC with advancing competition and working through the complex details of moving the industry from one that is governed by regulators to one that is governed by the market. At any time, the General Assembly has the ability to amend the law should problems arise or if competition develops more slowly than anticipated.

Restructuring is both comprehensive and complicated, has proponents and critics, and is the result of many

issues and driving forces at work. In our discussion of the issue we will briefly discuss the history of restructuring and suggest a couple of ways in which competition may have an impact on residential energy efficiency. We will also encourage consumers to educate themselves about this new energy landscape by using Virginia Energy Choice, an educational program sponsored by the SCC.

What is Restructuring?

The early years of the electric industry were chaotic. Cities often had competing electricity suppliers, some providing alternating current and some direct current. In Chicago in the late 1800's, for example, 29 separate franchises had been granted to electricity providers. By 1898, the National Electric Light Association (NELA) proposed that electric utilities be regulated by state agencies. The idea was not popular at first among investor-owned companies, but it gained favor when the number of municipal systems tripled between 1896 and 1906. The public appeared to favor municipal electric systems over unregulated investor-owned systems. In 1907, the National Civic Federation and NELA spoke in favor of state regulation of electric companies because they preferred state regulation to the development of municipal systems. Within ten years, 33 states had agencies that regulated the sale of electricity. In Virginia, the General Assembly gave the SCC the authority to regulate utility rates in 1914.

Federal authority to regulate the energy industry had its start in the Federal Power Act of 1935 and the creation of the Federal Power Commission. The commission was replaced in 1977 by the Federal Energy Regulatory Commission (FERC). In 1978, Congress passed the Public Utility Regulatory Policies Act, which essentially laid the foundation for restructuring and competition by opening wholesale power markets to non-utility producers of electricity. The Energy Policy Act of 1992 further accelerated non-utility power production by creating a new category of power generators.

Many electric industry participants began advocating restructuring the wholesale and retail electric markets.

They reasoned that, where feasible, allowing market forces to control an industry is more effective than government regulation. There are examples from other industries that the movement toward competitive markets was positive and produced benefits for the public.

The development of a competitive energy market provides potential for consumers, individually or in groups, to shape the process and outcome of the restructuring of a major industry. Over half of the States have passed legislation to restructure their electric power industry. These very important changes are being driven by technological, economic, public policy, and market forces.

Understanding how restructuring of the utility industry in Virginia works entails a couple of basic premises. First, the State Corporation Commission will no longer determine the rate or cost to consumers for purchasing electricity or natural gas supply service. This price will be determined by a competitive market place where consumers will be able to accept the best price that is offered by different suppliers. Secondly, it is only the generation of electricity and production of natural gas that is being deregulated. The transmission of electricity through high voltage delivery systems and delivery of natural gas through large pipelines will be regulated by the federal government, specifically FERC. The distribution of electricity through a lower voltage delivery system which carries power directly to your home and a smaller pipe system that delivers natural gas to your home will continue to be regulated by the SCC.

Restructuring and Energy Efficiency

Restructuring and the partial deregulation of the utility industry in Virginia may impact residential energy efficiency in the following ways:

- Competition between suppliers for your business may lower prices and it may also allow the consumer the option of choosing a supplier that is offering improved services or programs. Those services and programs may be related to energy conservation and efficiency.
- Some suppliers may offer green power energy resources like wind and solar as their source of electricity. This means that a consumer may be able to choose a renewable resource as his or hers electricity source. In some states people have been willing to pay more for green power because of their

support for clean, non-polluting energy. Suppliers that offer green power must be certified and any claims must be valid.

- Some states that have restructured have established Renewable Portfolio Standards (RPS), which means that a certain percentage of renewable energy sources must be used in the generation of electricity that is sold in the state. RPS's were not included in the original restructuring law in Virginia.
- Some states that have restructured have created system benefit charges or wire charges that are added to all sales throughout the regulated distribution system. These charges or fees create public benefit funds that can be used to fund activities such as demand side management programs, energy programs, renewable energy technology, energy research, and energy education. The establishment of a public benefit fund was not included in the original Virginia restructuring legislation.

How can a consumer be best prepared for any uncertainty that may exist with the move to a restructured competitive utility environment?

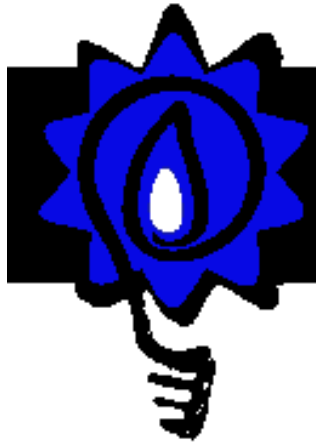
- The most practical, common sense approach that a consumer can take is to make your home as energy efficient as possible and make the practice of energy conservation a way of life. These activities will provide the consumer with a more affordable home and help to offset any fluctuation in prices due to a competitive free market.
- If you have the opportunity, consider choosing green power. It will probably cost more initially, but increased demand may lower the price. For citizens concerned about the environment, the long-term environmental benefit of using green power will offset the higher price.
- Educate yourself on how to become a smart energy shopper by participating in Virginia Energy Choice.

Virginia Energy Choice

Virginia Energy Choice is an educational program designed for consumers and sponsored by the Virginia State Corporation Commission (SCC). Its purpose is to explain the facts about energy restructuring in Virginia and to provide consumers with information so that they can make an educated choice of an energy supplier. Remember that beginning in 2004 most consumers in Virginia will have the opportunity to consider offers from various suppliers of electricity and natural gas. These suppliers are called competitive service providers and must be licensed by the SCC. The more you know the better off you will be when they begin to make offers in your area. Price will be one factor to consider when making a choice. Other things to think about are special offers, extra services, contract terms, and the source of energy.

You are not required to choose a competitive service provider. You may choose to remain with your current local utility company, in which case you don't have to do anything. If you want to make a switch then Virginia Energy Choice can help you:

- Shop for a competitive service provider.
- Compare and understand prices that are being offered.
- Obtain information about potential competitive service providers.
- Learn how to read and understand the new itemized bill that every consumer will be receiving no matter who your energy supplier is.
- Learn what your rights and responsibilities are under the new law.
- Obtain information about aggregation (group buying) and how you may be able to obtain lower prices by being a member of a buying group.
- Learn how to identify and understand the different



offers, services, contract terms and the sources of energy that may be presented by different suppliers.

When you shop for a car, a computer, or any other product, the more you know about what you're buying the better deal you get. The same is true when shopping for electric power. By using Virginia Energy Choice to learn about electricity purchasing options, you'll become a smart, educated consumer – and the free market works best when consumers are smart.

Contact Virginia Energy Choice for more detailed information by calling 1-877-YES-2004 or go to their website at www.vaenergychoice.org.

Energy Tips and Recommendations

1. The Virginia Electric Utility Restructuring Act was enacted into law in 1999. This will provide consumers the opportunity to choose an energy supplier (competitive service provider) who offers the best price and/or services.
2. The State Corporation Commission will continue to regulate the transmission and distribution of electricity and natural gas supplies. It is only the generation of these power sources that will be deregulated.
3. The best protection against any uncertainties resulting from restructuring that a consumer can assume is to make your home energy efficient and to practice conservation on a daily basis.
4. Take advantage of a free education program sponsored by the Virginia State Corporation Commission called Virginia Energy Choice. This consumer program will teach you the facts about utility restructuring and also show you how to be a smart energy shopper.